

Critics chafe at cost to regulate utility -- Times-Picayune, The (New Orleans, LA) - April 1, 2007 - page 01

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CORRECTION APPENDED

Even before Hurricane Katrina sent electric bills sky high, one cost of providing electricity was already astronomical: the cost of regulating Entergy New Orleans.

According to the most recent annual report filed with the Federal Energy Regulatory Commission, city regulation of the electric **utility** cost more than 10 times as much per customer as the state pays to regulate Entergy Louisiana, a **utility** that serves surrounding parishes.

Entergy New Orleans reported that in 2005 its regulatory commission expenses related to the city were almost \$6 million. In contrast, Entergy Louisiana and Entergy Gulf States reported their regulatory expenses related to state regulation were \$3.4 million and Cleco reported its total regulatory expense as \$242,658.

Those costs aren't necessarily passed onto customers. But if they were broken down on a per capita basis, the cost in New Orleans would have equaled \$36 per customer in 2005, compared with \$3.37 paid by every other Entergy customer in the state. And the cost per customer of regulating Cleco, which serves the north shore, was just a penny.

Since Katrina, the costs of regulating Entergy New Orleans have only increased on a per capita basis. That means that even if total regulatory costs stay frozen at 2005 levels, Entergy's 95,000 electric customers in New Orleans could be paying \$60 or more a year.

Members of the New Orleans City Council's Utilities Committee say the costs are reasonable in light of rate reductions and other savings secured by the council's adviser Sullivan and Worcester, the Washington, D.C., law firm whose fees are the city's largest regulatory cost. Before Katrina, customers of Entergy New Orleans had average monthly electric bills \$2 lower than Entergy Louisiana bills. They have since risen above Entergy Louisiana's rates.

"The regulatory costs justify the benefits that they accrue," Councilwoman Shelley Midura said, now defending costs she attacked while on the campaign trail for her office.

But watchdog groups and others who have looked at the costs say they are an indication that the city might need to re-examine the way it's handling the regulation of Entergy New Orleans.

"You definitely have a flag going up that's begging for inquiry," said Janet Howard, president of the Bureau of Governmental Research, a watchdog group that plans to conduct a study of the options for Entergy New Orleans. Options include municipalizing the **utility** through a city takeover or a merger with Entergy Louisiana.

'An accident of history'

Other than Washington, New Orleans is the only city in the nation that still regulates an investor-owned electric **utility**, though regulation of a municipally owned **utility** by the city it serves is not uncommon. There was a time when such a practice was more widespread. However, the growth of utilities in size and complexity inspired other cities to turn the task over to state regulators with full-time staffs.

The city regulation of Entergy New Orleans is "an accident of history," said Eric Smith of Tulane University's energy center.

Three members of the City Council serve on the Utilities Committee, setting the rates and making the decisions that dictate how the monopoly can serve and what rates it can charge.

The committee has an office with two people who handle some of the daily activities associated with regulation.

But for everything from investigating electric outages to negotiating rate increases, the committee turns to outside help. In addition to Sullivan and Worcester, Legend Consulting of Denver advises the council on economic matters regarding utilities. Other **consultants** include local law and accounting firms.

The price for those **consultants** isn't cheap. The budget for handling regulation of the city's cable, telephone, electric and gas services came to \$6.8 million in 2005, more than \$5.5 million of it to reimburse outside **consultants**.

The city bills Entergy New Orleans for those costs. Along with other operating costs of running the **utility**, Entergy New Orleans can use those costs to justify rate increases reflected in its customers' monthly bills.

"Every business that sells consumer goods or services has government regulations that must be adhered to, and the costs associated with compliance are part of the cost of doing business," Entergy New Orleans spokesman Morgan Stewart said. "Those costs are reflected in the price of the goods and services sold by those businesses. Entergy New Orleans as a regulated **utility** is no different."

Though the Louisiana Public Service Commission also hires outside **consultants** whose costs are then passed on to Entergy Louisiana or Entergy Gulf States, the overall cost for regulating those entities is lower even though the PSC has a staff of 120 people, including seven attorneys. The overall savings is realized because salaries for the in-house workers come to far less than the \$400- to \$600-an-hour fees charged by outside **consultants**.

The PSC approach is standard practice. Throughout the nation, the cost of regulation per capita is generally pennies a month, if not less, said Sanford Berg, director of the Public **Utility** Research Center at the University of Florida.

Thomas vows reductions

New Orleans City Council President Oliver Thomas, who last year became chairman of the Utilities Committee, said he can't be blamed for expenses that were approved by past councils, but says he is working to lower the costs of regulation. From 2006 to 2007, the council reduced the advisers contracts by \$400,000, he and Midura said.

Thomas also said he is moving the committee's office from the sixth floor to the second floor of City Hall, where the council is located, so the council members can work more efficiently with the office.

"We are going to do everything we can to lower our costs," he said.

But Thomas also said the advisers have earned their money. He said they have saved the city's rate payers millions of dollars.

Midura said the advisers' work has sliced almost 3 cents off the price of every kilowatt hour, meaning the average New Orleans customer is paying almost \$30 less a month as a result.

Karen Wimpelberg, board president of the watchdog group Alliance for Affordable Energy, said the alliance has long been concerned about the costs of the advisers.

The regulatory costs "appear to be awfully high for such a small part of the system. It is clearly a problem," she said.

Though Wimpelberg said the advisers' work is important, there are ways of getting the work done without spending so much money, such as hiring in-house attorneys, accountants and engineers.

Virginia Boulet, a former candidate for mayor who advised Mayor Ray Nagin on Entergy issues, is unimpressed with the savings touted by council members and the advisers

And the cost for the **consultants** is "outrageous," she said.

She is particularly offended by the boast from the council and its advisers that pre-Katrina rates in New Orleans were lower than around the state. "It doesn't impress me that they boast that we've bested one of the most rural states in the nation," she said.

Rates for electricity should be cheaper in New Orleans because its population is much denser, she said.

The high cost of providing power to the rural parts of the state -- where power lines often are run for miles between customers -- usually increases the price of electricity for customers of those utilities, meaning rates for Entergy Louisiana should be higher, she said.

"There should be a huge difference," she said.

Higher rates in N.O.

Instead, Entergy New Orleans customers are paying higher rates than the rest of the state, largely because of the cost of repairing downed lines and other Katrina damage.

Those rising costs concern Howard of the BGR.

"We have so many pressures coming to bear, so many that it's affecting the city's capacity for recovery," she said.

Because of those concerns, BGR wants to look at ways that could lower the cost of electricity for consumers.

"We were looking at the options of what would be in the best interest of the New Orleans rate payers," she said.

Merging Entergy New Orleans with the statewide **utility** company would reduce the regulatory costs in two ways: The PSC and its larger staff would regulate the electricity in New Orleans, and the costs would be spread out over more than 1 million customers.

Even if the costs of regulating Entergy in New Orleans remained \$6 million, those costs, when combined with the costs of regulating Entergy elsewhere in the state, would be just \$8 a year for each Entergy customer in the state, a savings of greater than 75 percent per customer in New Orleans.

Though Wimpelberg doesn't favor a merger with Entergy Louisiana, something must be done, she said.

It is paramount, she said, that the costs of **utility** bills and regulation "be carefully readjusted due to our smaller population. It's putting a terrible burden on the people who are working so hard to stay here."

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CORRECTION / CLARIFICATION

Cleco costs wrong: A story in Saturday editions of The Times-Picayune about the cost of regulating Entergy New Orleans used an incorrect figure for the cost of regulating the **utility** Cleco, serving north shore customers. The cost to regulate Cleco is \$1.07 per year per customer. (4/2/2007)

Librarian's note: The story to which this correction refers was published Sunday, April 1, 2007."